

VZCZCXRO2013
PP RUEHCI
DE RUEHKT #0163/01 0551246
ZNY CCCCC ZZH
P 241246Z FEB 10
FM AMEMBASSY KATHMANDU
TO RUEHC/SECSTATE WASHDC PRIORITY 1485
INFO RUEHBJ/AMEMBASSY BEIJING PRIORITY 7329
RUEHRL/AMEMBASSY BERLIN PRIORITY 0147
RUEHBS/AMEMBASSY BRUSSELS PRIORITY 0284
RUEHLM/AMEMBASSY COLOMBO PRIORITY 7710
RUEHKA/AMEMBASSY DHAKA PRIORITY 3061
RUEHIL/AMEMBASSY ISLAMABAD PRIORITY 5749
RUEHLO/AMEMBASSY LONDON PRIORITY 6797
RUEHNE/AMEMBASSY NEW DELHI PRIORITY 3544
RUEHFR/AMEMBASSY PARIS PRIORITY 0212
RUEHCI/AMCONSUL KOLKATA PRIORITY 4995
RUCPDO/DEPT OF COMMERCE WASHINGTON DC PRIORITY
RUEHGV/USMISSION GENEVA PRIORITY 2555
RUCNDT/USMISSION USUN NEW YORK PRIORITY 3847
RUEKJCS/SECDEF WASHDC PRIORITY
RHMFISS/CDR USPACOM HONOLULU HI PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
RHEFDIA/DIA WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 KATHMANDU 000163

SIPDIS
SENSITIVE

E.O. 12958: DECL: 02/23/2020
TAGS: [PGOV](#) [ECON](#) [EAIR](#) [PREL](#) [NP](#)
SUBJECT: NEPAL: AIRBUS DEAL IN TROUBLE, EU LOBBIES HARD

REF: 09 KATHMANDU 1046 AND PREVIOUS

Classified By: Charge d' Affaires, a.i., Donald A. Camp. Reasons 1.4 (b /d).

¶1. (C) Summary. The Government of Nepal is unlikely to guarantee the Nepal Airlines Corporation (NAC) loan to purchase two Airbus aircraft, according to Finance Secretary Khanal, essentially killing the deal and reviving Boeing's hopes to sell its aircraft to the NAC. The European Union continues to lobby aggressively for Airbus, most recently by sending a strongly-worded letter to the Prime Minister urging him to complete the Airbus purchase immediately (full text in para 8). End Summary.

Finance Ministry Against Deal

¶2. (C) During a February 22 meeting with Charge, Finance Secretary Rameshwar Khanal said the internal Finance Ministry committee reviewing the Nepal Airlines Corporation decision to purchase two Airbus aircraft -- a narrow- and wide-body -- had completed its work. While the committee report is not public, Khanal told Charge it concluded that the purchase of the Airbus aircraft, particularly the wide-body, "cannot be justified at the proposed price" (approximately USD 134 million).

¶3. (C) Khanal said that the Ministry of Finance decision would likely become public within ten days, after the committee makes some technical corrections in the report data. Based on this report, the Ministry of Finance would recommend against providing a sovereign loan guarantee for the Airbus purchase. (Note: Because of the NAC's poor financial condition, it is unlikely to be able to raise sufficient funds privately to purchase the planes. End note.) The Ministry of Finance would instruct the Ministry of Tourism and Civil Aviation to cancel the Nepal Airlines Corporation procurement, and reopen the bidding, most likely for two narrow-body planes, which independent analysts believe are better suited for the NAC's current and planned routes and financial situation. Noting that the NAC fleet currently has two Boeing 757 aircraft, Khanal said buying new Boeing planes is logical since the NAC could use its spare

parts inventory and would not have to retrain the crews on new equipment.

¶4. (C) Charge thanked the Finance Secretary for the Ministry's careful review of the NAC purchase and reiterated U.S. support for a transparent and fair procurement process. He noted Boeing is ready to provide new bids quickly if the NAC reopens bidding and does not believe the new procurement process will unnecessarily delay the delivery of new aircraft.

¶5. (C) Charge also raised the Nepal Airlines procurement with ForMin Sujata Koirala, who confined her response to the need for new planes quickly, which we read as support for Airbus.

EU Not Giving Up

¶6. (C) In the face of growing concerns about the Airbus deal, the European Union sent a strongly-worded letter to Prime Minister Nepal on February 11, which was leaked to the press, urging the PM to complete the deal on schedule and to resist "undue pressure being used by opposing vested interest groups." (Note: Post received a copy of the letter from a source in the PM's office. End note.) The letter makes inaccurate statements, including the claim that the Public Accounts Committee (PAC) report does not challenge the "core" of the deal (whereas the PAC recommends against the purchase of the wide-body plane). It also claims that canceling the Airbus deal would undermine the confidence of foreign investors (whereas the suspected corruption surrounding the Airbus deal raises serious questions about Nepal's foreign

KATHMANDU 00000163 002 OF 002

investment climate).

Comment

¶7. (C) The Finance Secretary's comments on the Airbus deal is very positive news for Boeing, but Post remains cautious. Powerful political forces, including Deputy Prime Minister B.K. Gachchhadar, strongly support the Airbus deal. A close Embassy contact on the PAC recently alleged that Gachchhadar offered him a bribe to support the deal, and even threatened the PM that he would pull his party (MPRF-D) out of government if the Airbus deal did not go through. Post will continue to reach out to key contacts to press for a transparent and fair process.

Text of EU Letter

¶8. (SBU) BEGIN TEXT OF EU LETTER:

Regarding the acquisition process of two new aircraft by Nepal Airlines (NA)

The Heads of Mission of France, Great Britain, and the European Union delegation would like to draw the kind attention of the Honorable Prime Minister, Mr. Madhav Kumar Nepal, and the Government of Nepal on the following points regarding the acquisition process of two new aircraft from Airbus by Nepal Airlines.

Airbus Industries has won an international open tender by sealed bid for the purchases of one narrow body and one wide body aircraft by Nepal Airlines.

Nepal urgently needs new aircraft and better access to the European market. In this context, the choice of a wide-body aircraft makes perfect sense and will be both instrumental and indispensable to stop the loss of market share of Nepal Airlines on international routes. The rationale for buying one narrow body and one wide body aircraft have been examined by Nepal's best trained professional minds.

The irregularities listed by the Public Account Committee (PAC) do not concern the core of the deal. The PAC has indeed not been able to list precise irregularities, which

implies that no serious infringement has been found. Moreover, the PAC has actually recommended proceeding immediately with the acquisition of new aircraft: "After taking into accounts all the study till to date and after discussion with entire stakeholders, it is recommended to proceed immediately for purchasing new aircraft for NA taking into account the need and capacity."

The Envoys would welcome legal action against the guilty parties as warranted by law if irregularities are confirmed, but to jeopardize the acquisition of this basis is out of proportion. It is also self damaging for Nepal where having a secure business operating environment to give confidence to foreign investors is of great importance.

The tendering process has been exemplary so far. Airbus has clearly and convincingly won with the best possible offer for Nepal as it also has in so many other countries.

The Envoys have been made aware that undue pressure is being used by opposing vested interests groups and strongly urge the Government not to give in to pressure and to complete this deal as planned in accordance with the signed contract.

Kathmandu, 11 February 2010

END TEXT
CAMP